

Effects of Gasoline Pricing on State Revenues & Expenditures

Interim Joint Committee on Appropriations & Revenue

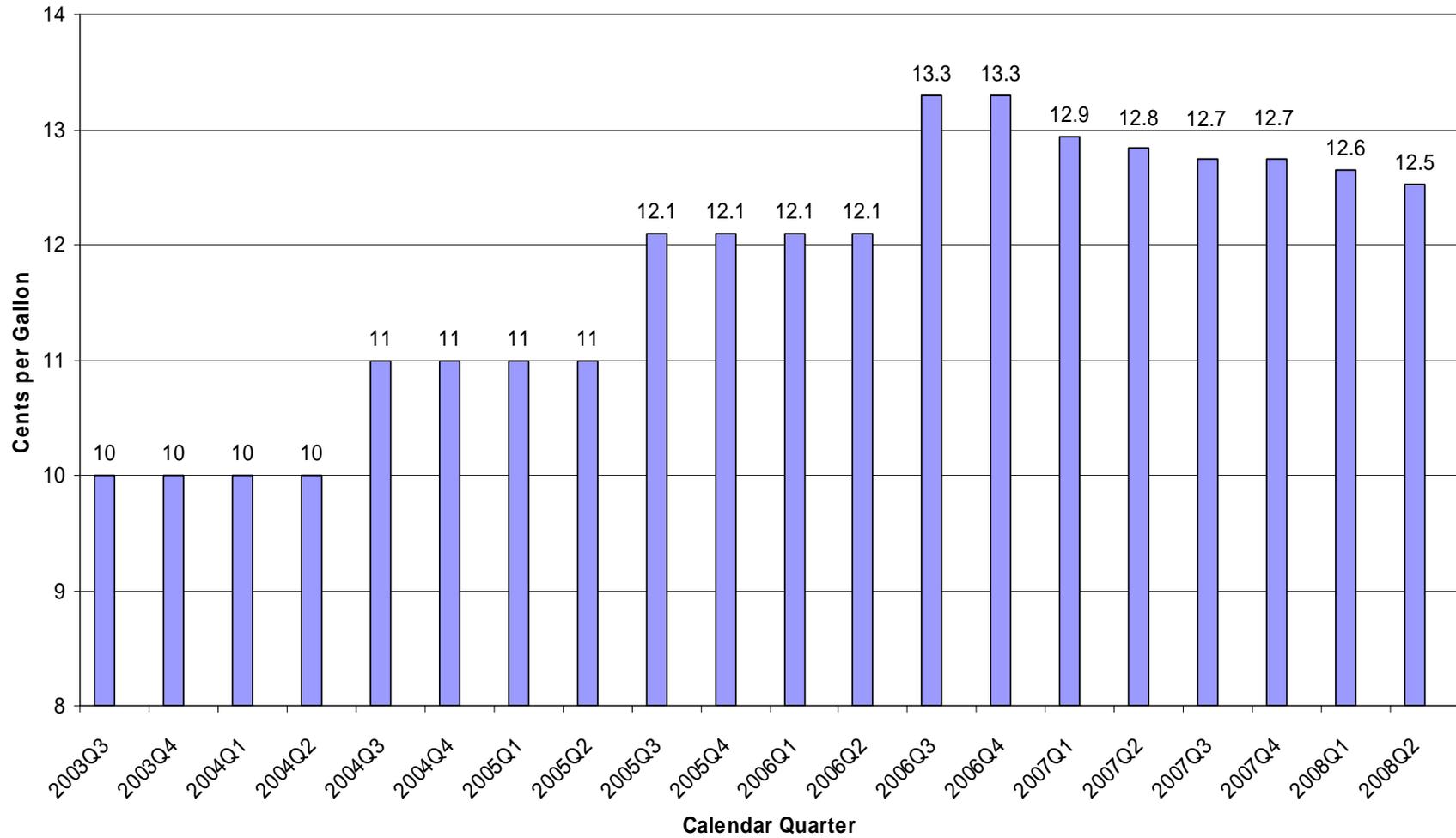
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August 15 Consensus Forecast Group Planning Report Assumptions

- Motor fuels rate = 9% of KY Average Wholesale Price (AWP) of a gallon of gasoline (calculated in prior quarter). Current floor is \$1.22. By statute, AWP cannot increase more than 10% in a fiscal year
- Maximum AWP cannot exceed:
 - \$1.34 for FY 06
 - \$1.48 for FY 07
- Next Consensus Forecast due October 15

Motor Fuels Tax Rate Estimates August CFG



Taxable Volume (in gallons)

(Source: KY Department of Revenue)

July 2004

- Gasoline:
201,519,611
- Special Fuels:
92,483,104
- Total: 294,002,715

July 2005

- Gasoline:
198,204,732
- Special Fuels:
92,593,648
- Total: 290,798,380

DIFFERENCE:
3,204,715 (-1.09%)

**Effects of
Gasoline Pricing
on
State Government
Expenditures**

Fleet Management

- FY 05 cost of fuel purchased = \$7,588,600 (4,361,272 gallons at an average annualized price of \$1.74/gallon)
- Fleet Management prices since beginning of fiscal year:
 - June 30, 2005: \$1.87/gallon
 - August 16, 2005: \$2.39/gallon
 - September 1, 2005: \$2.72/gallon
 - September 2, 2005: \$2.82/gallon
 - September 21, 2005: \$2.28/gallon
 - Average for FY 06: ????
- At this point, the annualized average wholesale price Fleet Management will pay in FY 06 is unknown. If one assumes an average annualized cost of \$2.50/gallon, the annual FY 06 cost would equal \$10.9 M (+\$3.3 M or a 44% increase over FY 05) assuming FY 05 consumption levels

Fleet Management, cont.

- Each 1 cent increase in the annualized AWP of gasoline = \$43,600 annualized change in Fleet Management's cost, assuming a constant level of consumption. This equates to not being able to replace two vehicles
- Expenditures on gasoline in excess of budgeted amount for FY 06 will come from the vehicle replacement account

Kentucky State Police

- FY 05 – \$3,168,000 (1.8 million gallons of fuel at \$1.76/gallon)
- FY 06 estimated – \$4,500,000 (assumes 1.8 million gallons at \$2.50/gallon or \$1.3 M more than FY 05)

Environmental & Public Protection Cabinet

- FY 05 - \$1,149,000 (668,000 gallons at \$1.72/gallon)
- FY 06 estimated – \$1,670,000 (assumes 668,000 gallons at \$2.50/gallon or \$521,000 more than FY 05)

Privately Owned (employee) Vehicles

- FY 05 – \$8.56 M (25 million miles at annualized cost of 34.25 cents/mile)
- FY 06 - \$9.4 M or \$840,000 over FY 05 expenditures (assumes same level of at estimated annualized rate of 37.625 cents/mile)

**IMPACT OF
FUEL PRICE INCREASES
ON
LOCAL SCHOOL DISTRICTS**

BACKGROUND

- Approximately 9,650 school buses statewide
- More than 99% of buses use diesel fuel
- Fuel outlays have historically averaged approximately 8% of total pupil transportation costs
- Pupil transportation enacted appropriation = \$212 M in FY 04. Of that amount, \$17.5 M was spent on fuel.

FY 2005

- Increased fuel prices became serious problem during FY 2005
- Pupil transportation enacted appropriation = \$212 M in FY 05. Of that, \$24.0 M was spent on fuel, \$6.5 M (37%) more than FY 04
- Most districts overspent fuel budgets
- Fuel spending increased from 7.9% to 10.5% of total pupil transportation outlays
- Districts absorbed cost increases with offsetting cuts elsewhere and by deferring purchases of new buses

FY 2006

- Total pupil transportation enacted appropriation = \$212 M in FY 06.
- Fuel cost increases, exacerbated by Katrina, turn a serious problem into a more serious problem.
- Availability is a new problem—expected to ease as Gulf region recovers
- Prices likely to ease over next few months
- Jefferson County began school year paying \$1.65/gallon for diesel; paid \$2.47/gallon post-Katrina. Cost averaged \$1.08/gallon during FY 05
- Assuming average cost of \$2.12/gallon in FY 06, most district fuel budgets will nearly double, absent any offsetting changes
- FY 06 fuel costs expected to be \$42.5 M
- Districts will have to defer new/replacement bus purchases; curtail or eliminate field trips

CONCLUSIONS

FY 2006 fuel cost increases pose a serious problem for local school districts